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C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 000575

SIPDIS

PARIS FOR OECD/IEA, TASHKENT FOR BURKHALTER

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TAGS: EPET ENRG ECON ASEC PINS NI

SUBJECT: OIL EXEC SAYS NIGERIAN OIL PRODUCTION AT FULL CAPACITY

REF: LAGOS 568

Classified By: RHINSON-JONES FOR REASONS 1.5 B, D AND E

**¶11. (C)** Summary. A senior industry source reports that Nigerian crude oil production is currently at full capacity. He states that Nigeria is likely producing just over 2.2 million barrels of crude per day. Ongoing communal violence in the Delta region is beginning to affect Shell Oil's production and daily operations of ChevronTexaco, and since all producers are pumping "flat out," there is no one left to pick up any prolonged drop in production. End Summary.

**¶12. (C)** A senior executive at ExxonMobil told Econoff that while the drop in Shell Oil's production caused by clashes between ethnic groups in Delta State is relatively minor in relation to overall output, the GON cannot utilize its normal practice of reallocating Shell's reduced volume to other producers because all producers are now pumping "flat out." The executive, who has 20 years experience working in Mobil Oil's Nigerian and international oil operations, said that since late February, all crude producers in Nigeria have been pumping at full capacity, and Nigeria's output should be at just over 2.2 million barrels per day (bpd). Shell announced this afternoon that due to ethnic violence, it closed five of its facilities in the Warri area, which reduces its output by 76,000 bpd. Shell total output is estimated at 970,000 bpd. According to the executive, ExxonMobil is producing approximately 620,000 bpd of crude and condensates. ChevronTexaco is estimated to be producing 517,000 bpd.

**¶13. (U)** In the past week, activists from the Ijaw ethnic community have been disrupting vessel traffic along the waterways of the Escravos River in Southwest Delta state near the town of Warri, resulting in gun battles with police and military units (reftel). This escalated into direct attacks against both ethnic Itsekiri villages and a Shell Oil facility. Both Shell and ChevronTexaco are moving some personnel out of their field operations in the delta swamps, primarily out of concern that they will be caught in the crossfire. The situation in the area remains volatile and very fluid.

**¶14. (C)** At the time of the discussion between Econoff and the ExxonMobil executive, Shell's estimated reduction in output was 30,000 bpd, what the executive described as a "drop in the bucket." When pressed, he said industry watchers should begin to worry if Nigeria's overall production drops by 100,000 bpd over a sustained period. He also noted that Nigeria's current maximum production effort is matched throughout OPEC. He said that OPEC-wide, it would be hard to pull an additional half-million barrels of crude at this time, except perhaps

from Saudi Arabia.

15. (C) Comment. The GON normally allocates its OPEC quota among each of the oil producers doing business here. In the past, whenever any given company's production levels have been reduced by equipment failure or community action, as in the case of the take-over by local women of ChevronTexaco's Escravos in the summer of 2002, the GON has quickly reallocated the anticipated production loss to other producers in order to maintain overall national output levels. If OPEC quotas are being ignored at this time to maximize worldwide production, and Nigerian producers are operating at full capacity, sustained field operation disruptions may begin to have an effect on output as the GON has nowhere to turn to pick up the slack. A small producer told Econoff that his company is still operating at only 35 percent capacity under GON quotas. It may be that if disruptions in the Delta or elsewhere continue, companies operating marginal fields will also be asked to operate at maximum capacity, making every drop of crude truly count. End comment.

HINSON-JONES